COURSE LEARNING OUTCOMES

At the end of this course the students will be able to

CLO 2 Assess the concept of Redemption of shares, debentures, underwriting of shares and underwriter’s liability.

Preview of last class

01 Model Problems with solution

02

- inComplete Underwriting

03

Model Problems with

- in Partial Underwriting

04

Topics Covered

- **Meaning of Firm Underwriting**
- **When the Issue is Fully Underwritten [with Firm Underwriting]**
- **Steps in determining the liability of individual underwriter**

FIRM UNDERWRITING - LECTURE VIDEO

SOURCE

CLICK

https://www.youtube.com/watch?v=0srZmArPmfs

- by Mr. Saheb Academy, Educational Channel, IPCC

SOURCE : Animation

CLICK

https://www.youtube.com/watch?v=QmJObCXq_Hk

Firm Underwriting

INTRODUCTION

It signifies a definite commitment to take up a specified number of shares irrespective of the number of shares subscribed for by the public. In such a case, unless it has been otherwise agreed, the underwriter's liability is determined without taking into account the number of shares taken up 'firm' by him that is to say, the underwriter is obliged to take up :

(i) The number of shares he has applied for 'firm'; and (ii) The number of shares he is obliged to take up on the basis of the underwriting

Firm Underwriting

EXAMPLE

In other words, in such cases the obligation or liability of the underwriter is the aggregate of shares to be taken up under firm commitment and the shares as per underwriting commitment. Let us say, A underwrites 60% of an issue of 10,000 shares and besides applies for 1,000 shares, ‘firm’.

In case there are marked applications for 4,800 shares he will have to take 2,200 shares, i.e. 1,000 shares for which he applied ‘firm’ and 1,200 shares to meet his liability of underwriting contract. If, on the other hand, the underwriting contract has provided that abatement would be allowed in respect of shares taken up ‘firm’ the liability of A in the

Firm Underwriting

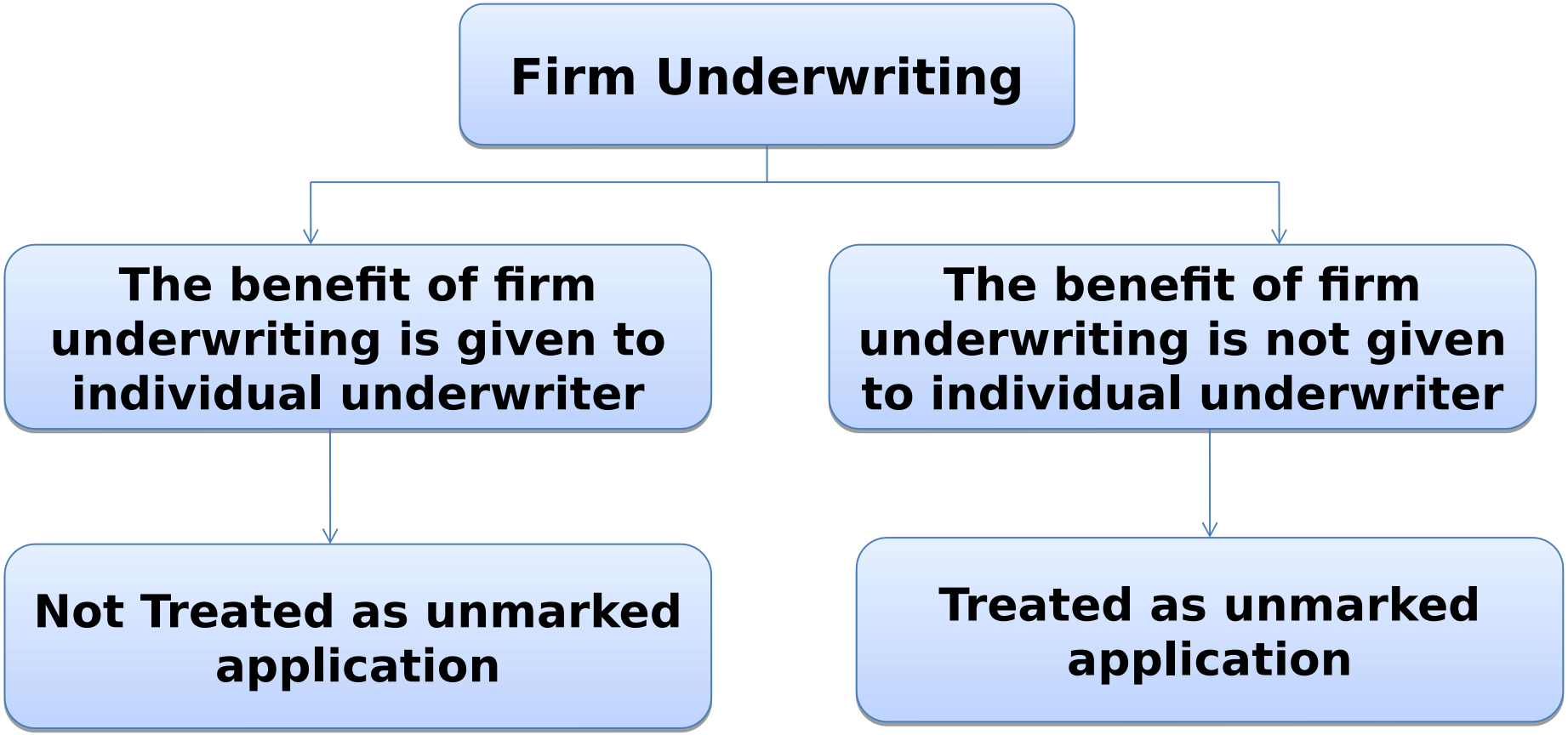
1) When the Issue is Fully Underwritten [with Firm Underwriting]

There are two alternative ways:

(i) The benefit of firm underwriting is not given to individual underwriter, or

(ii) The benefit of firm underwriting is given to individual underwriter.

Firm Underwriting


Firm Underwriting
The benefit of firm underwriting is given to individual underwriter
The benefit of firm underwriting is not given to individual underwriter
Not Treated as unmarked application
Treated as unmarked application

Firm Underwriting

i) The benefit of firm underwriting is not given to individual Underwriter:

For determining the liability of individual underwriter, the following steps are followed:

- **Step 1 -** Compute gross liability in the usual manner (if it has not been given).
- **Step 2** - Subtract marked applications (excluding firm underwriting) from gross liability of respective underwriters. If some of the resultant figures are found negative, then add all negative figures and divide the resultant in the ratio of gross liability.

Firm Underwriting

Step 3 - Determine the number of unmarked applications as follows:

Total subscriptions (excluding firm underwriting)	XXX
Less: Marked applications (excluding firm underwriting)	XXX
Unmarked applications by public	XXX
Add: Applications under firm underwriting	XXX
Total unmarked applications	XXX

Divide the above calculated unmarked applications in the ratio of gross liability. If the resultant figures of Step 3 are all positive or zero, then it represents net liability as per agreement. After this step, go to Step 5 (skip Step 4). If some of the resultant figures are negative, then continue to Step 4.

Firm Underwriting

Step 4 - Add all the negative figures and divide the resultant between the underwriters having positive figures in the ratio of gross liability. Repeat Step 4 unless all figures are nonnegative. Now these figures represent the net liability as per agreement. After this step, to Step 5.

Step 5 - Add firm underwriting with the net liability as per agreement. The resultant figures represent **total liability.**

Firm Underwriting

(ii) The benefit of firm underwriting is given to individual underwriter

For determining the liability of individual underwriter, the following steps are followed:

- **Step 1** - Compute gross liability in the usual manner (if it has not been given).
- **Step 2** - Subtract marked applications (excluding firm underwriting) from gross liability of respective underwriters. If some of the resultant figures are found negative, then add all negative figures and divide their sum in the ratio of gross liability.

Firm Underwriting

Step 3 - Determine the number of unmarked applications as follows:

Total subscriptions (excluding firm underwriting)	XXX
Less: Marked applications (excluding firm underwriting)	XXX
Unmarked applications by public	XXX

(Divide the above calculated unmarked application in the ratio of gross liability.)

Step 4 - Subtract "firm underwriting" of individual underwriter from the respective figures of Step 3. (If the resultant figures of Step 4 are all positive or zero, then that represents net liability as per agreement. After this step, go to Step 6 (skip Step 5). If some of the resultant figures are

Firm Underwriting

Step 5 - Add all negative figures and divide it between the underwriters having positive figures in the ratio of gross liability. Repeat Step 5 unless all figures are non-negative. Now these figures represent the net liability as per agreement. After this step, go to Step 6.

Step 6 - Add firm underwriting with the net liability as per agreement. The resultant figures represent total liability.

Test Your Knowledge

LINK
https://docs.google.com/forms/d/e/1FAIpQLSdTwtBRTbLQWEUcIxnartCSfNkjqnsxlVIi26nc2NS0m-Z8Yg/viewform

CLICK

THANK YOU